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27 August 1985

**Soviet Economic Assistance to the Communist LDC's, 1981-84**

Soviet economic assistance to Communist LDCs (CLDCs)--in the form of trade subsidies and economic aid--leveled off at between \$6.4-\$6.8 billion during the past four years, ending the pattern of dramatic growth which began during the mid-1970s (See Table 1). \* As in the past, Cuba received the lion's share --an estimated \$4.5 billion annually during 1981-84--or roughly two-thirds the total. Vietnam and Mongolia received the next largest amounts, getting some \$1 billion and \$800 million respectively each year, while Soviet assistance to North Korea--which had topped \$250 million in 1980--fell to only \$55 million in 1984. In addition to this assistance, Moscow has provided the CLDCs--primarily Cuba--with another \$3.2 billion in hard currency aid since 1980 to help with foreign exchange shortages. Overall, Moscow's approach to the CLDCs during the past four years has been to supply them with sufficient economic assistance and hard currency support to maintain economic stability. In return, the Soviet have continued to reap major political and strategic benefits, and--to a lesser extent--economic gains as well.

**Trade Subsidies**

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Roughly 50 percent of Soviet economic assistance to the CLDC's during 1981-84 was in the form of price subsidies, most of which went to Cuba. Since 1974, the USSR has granted concessionary prices on its oil exports and paid premiums on its imports of sugar and nickel. As with its sales to Eastern

\* The countries designated Communist LDC's are Cuba, Vietnam, Mongolia, North Korea, Laos, and Cambodia.

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Table 1

## USSR: Summary of Economic Assistance to CLDC's

|                                    | (Billions US) |             |             |             |             |             |             |             |             |  |
|------------------------------------|---------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--|
|                                    | <u>1976</u>   | <u>1977</u> | <u>1978</u> | <u>1979</u> | <u>1980</u> | <u>1981</u> | <u>1982</u> | <u>1983</u> | <u>1984</u> |  |
| <b>Total</b>                       | <b>2.5</b>    | <b>3.4</b>  | <b>4.2</b>  | <b>4.7</b>  | <b>5.6</b>  | <b>6.8</b>  | <b>6.8</b>  | <b>6.4</b>  | <b>6.7</b>  |  |
| <b>Trade Subsidies<sup>a</sup></b> | <b>1.5</b>    | <b>2.2</b>  | <b>2.8</b>  | <b>3.0</b>  | <b>3.3</b>  | <b>3.5</b>  | <b>3.8</b>  | <b>3.2</b>  | <b>3.6</b>  |  |
| <b>Economic Aid</b>                | <b>1.0</b>    | <b>1.2</b>  | <b>1.4</b>  | <b>1.7</b>  | <b>2.3</b>  | <b>3.3</b>  | <b>3.0</b>  | <b>3.2</b>  | <b>3.1</b>  |  |

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<sup>a</sup> Excludes price subsidies on commodities other than sugar, petroleum, and nickel.

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Europe and the other CLDC's, Moscow charged Cuba oil prices based on the world average of the preceding five years. As a result of steeply-rising world oil prices in 1979 and 1980, the value of the Cuban oil subsidy increased markedly, peaking at \$1.7 billion in 1981. With the fall in world oil prices since 1982, however, the charge by the Soviets has increased almost to the world price and this subsidy has nearly disappeared. Soviet oil price subsidies to other CLDCs also have been sharply reduced and in some cases eliminated (See Table 2).

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Prices for imports of Cuban sugar and nickel also are set annually, but unlike the price for oil they are not tied to world prices and are set solely at the discretion of Moscow. In recent years, Moscow has sharply increased the price it pays for Cuban sugar, apparently to compensate Cuba for rising oil prices. Thus, from 1981-84, the subsidy on sugar increased from \$1.4 billion to over \$3.4 billion--more than offsetting the decline in the oil subsidy.

Direct Economic Aid

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Direct economic aid, in the form of credits to either finance Soviet development projects or cover trade imbalances, has comprised the other half of Soviet economic assistance since 1980. \* Unlike trade subsidies, however--where Cuba received virtually the entire amount--Cuba, Vietnam, and Mongolia each received about a 30 percent share of Soviet economic aid in 1984.

\* Grants and technical services are also included under this category. There is little direct information on the amount of this support, but, with the possible exception of Vietnam and Cuba, the amounts extended are probably small.

Table 2

## USSR: Estimated Economic Assistance to Communist LDCs

|  | (Million US \$) |       |       |       |       |       |       |       |       |
|--|-----------------|-------|-------|-------|-------|-------|-------|-------|-------|
|  | 1976            | 1977  | 1978  | 1979  | 1980  | 1981  | 1982  | 1983  | 1984  |
| <u>Cuba</u>                            |                 |       |       |       |       |       |       |       |       |
| Total                                  | 1,569           | 2,270 | 2,946 | 3,178 | 3,463 | 4,558 | 4,666 | 4,260 | 4,620 |
| Economic aid                           | 185             | 230   | 320   | 460   | 830   | 1,415 | 975   | 1,070 | 1,000 |
| Trade <sup>a</sup>                     | -               | -     | -     | -     | 245   | 912   | 481   | 500   | 460   |
| Development aid <sup>a</sup>           | 150             | 195   | 285   | 420   | 540   | 453   | 444   | 520   | 490   |
| Technical services                     | 35              | 35    | 35    | 40    | 45    | 50    | 50    | 50    | 50    |
| Trade subsidies                        | 1,384           | 2,040 | 2,626 | 2,718 | 2,633 | 3,143 | 3,691 | 3,190 | 3,620 |
| Sugar                                  | 989             | 1,638 | 2,427 | 2,324 | 1,165 | 1,366 | 2,580 | 2,740 | 3,420 |
| Petroleum                              | 374             | 378   | 164   | 381   | 1,480 | 1,657 | 1,006 | 345   | 100   |
| Nickel                                 | 21              | 24    | 35    | 13    | -12   | 120   | 105   | 105   | 100   |
| <u>Vietnam</u>                         |                 |       |       |       |       |       |       |       |       |
| Total                                  | 350             | 410   | 470   | 770   | 935   | 1,120 | 1,000 | 1,040 | 1,040 |
| Economic aid                           | 305             | 290   | 335   | 570   | 580   | 900   | 950   | 1,025 | 1,040 |
| Trade <sup>b</sup>                     | 168             | 121   | 122   | 280   | 282   | 633   | 637   | 673   | 687   |
| Development aid <sup>b</sup>           | 57              | 74    | 103   | 175   | 178   | 142   | 188   | 227   | 228   |
| Grants <sup>c</sup>                    | 50              | 50    | 50    | 50    | 50    | 50    | 50    | 50    | 50    |
| Technical services <sup>d</sup>        | 30              | 45    | 60    | 65    | 70    | 75    | 75    | 75    | 75    |
| Oil subsidies                          | 45              | 120   | 135   | 200   | 355   | 220   | 50    | 15    | -     |
| <u>Mongolia</u>                        |                 |       |       |       |       |       |       |       |       |
| Total                                  | 490             | 620   | 690   | 685   | 835   | 830   | 885   | 885   | 785   |
| Economic aid                           | 445             | 575   | 660   | 640   | 770   | 765   | 865   | 880   | 785   |
| Trade <sup>b</sup>                     | 114             | 167   | 162   | 175   | 218   | 247   | 188   | 240   | 202   |
| Development aid <sup>b</sup>           | 331             | 408   | 498   | 465   | 552   | 503   | 662   | 625   | 568   |
| Technical services                     | -               | -     | -     | -     | -     | 15    | 15    | 15    | 15    |
| Oil subsidies                          | 45              | 45    | 30    | 45    | 65    | 65    | 20    | 5     | -     |
| <u>North Korea</u>                     |                 |       |       |       |       |       |       |       |       |
| Total                                  | 65              | 45    | 35    | 76    | 260   | 145   | 130   | 40    | 55    |
| Trade and Development aid <sup>e</sup> | 35              | 15    | 15    | 30    | 75    | 65    | 70    | 25    | 45    |
| Oil subsidies                          | 30              | 30    | 20    | 45    | 185   | 80    | 60    | 15    | 10    |
| <u>Laos and Cambodia</u>               |                 |       |       |       |       |       |       |       |       |
| Development aid <sup>b</sup>           | 15              | 30    | 20    | 35    | 60    | 130   | 160   | 185   | 164   |

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- <sup>a</sup> Based on (a) estimated balance-of-payments aid necessary to cover Cuban soft currency trade deficits with the USSR; (b) Cuban purchases of capital goods from Moscow; and (c) public statements by Cuban and Soviet officials concerning the amount of development aid extended.
- <sup>b</sup> Estimated from reported Soviet trade surpluses.
- <sup>c</sup> Based on proportion of grants in reported commitments.
- <sup>d</sup> Minimum estimated value of Soviet technicians in Vietnam and training of Vietnamese in the USSR.
- <sup>e</sup> From reported Soviet deliveries of projected-related materials. Trends in Soviet trade surplus since the mid-1970s indicate that repayment on earlier credits are being made.

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(See Appendix for a more detailed description of Soviet economic aid to each country). Overall, the USSR extended direct economic aid to the CLDCs in roughly a 50/50 mix of project finance and balance of payments credits in 1984, although this formula varied among the individuals CLDC's (see figure 1).

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[redacted] credits for Soviet development projects in Cuba carry terms of up to 25-year repayment, with 25X1 grace periods of up to 10 years, and at interest rates of no more than 4 percent. Credits to cover any remaining trade deficit between the USSR and Cuba call for repayment over 15 years, including a 5-year grace period, at no interest. Moscow's other Communist clients, with the possible exception of North Korea, presumably receive similar terms. The Soviets have also been amenable to renegotiating their outstanding credits, rescheduling the debt payments of Cuba, Mongolia, and Vietnam and/or cancelling portions of their debt.

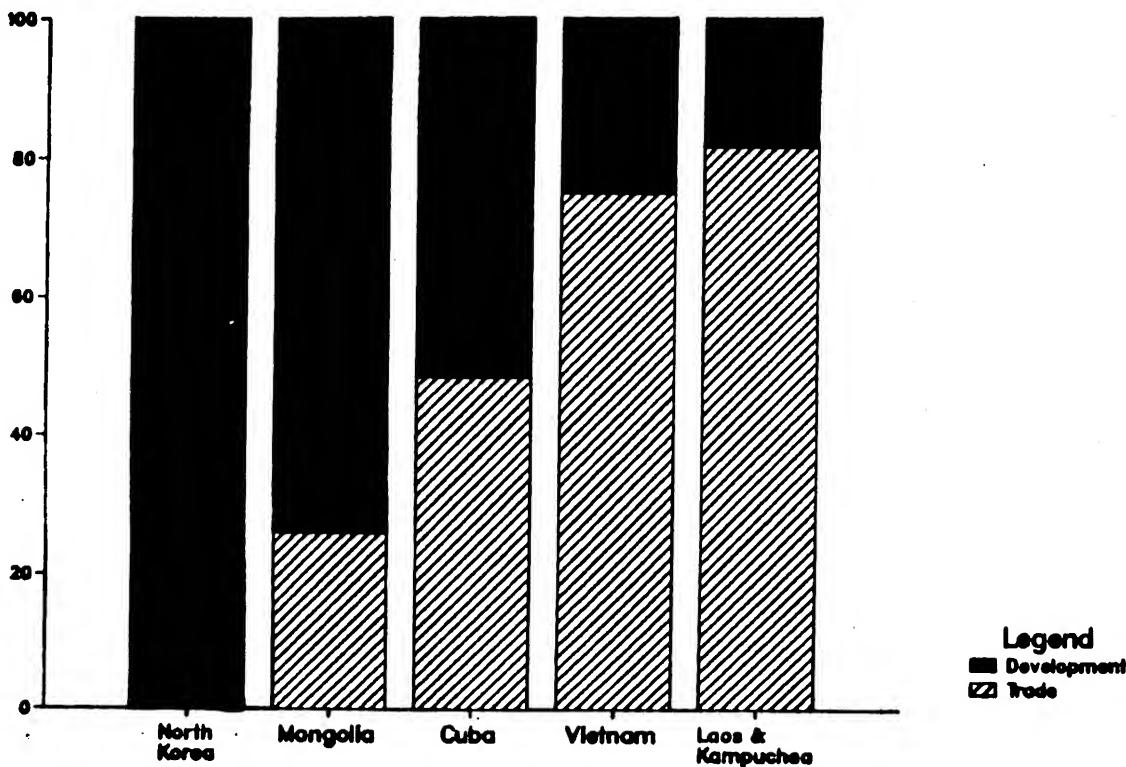
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#### The Soviet Side of the Ledger

The USSR receives substantial political, strategic and economic benefits in return for its economic assistance. Cuba remains the USSR's most important asset in the Western Hemisphere, while both the Cubans and Vietnamese provide the Soviet Navy with much-needed access to port facilities in areas of the world far away from home waters. Politically, meanwhile, the CLDCs furnish votes supporting Moscow's position in the U.N. and other international organizations. Castro, in particular, has been aggressive in promoting the Soviet Union's political position on various international issues and in defending Moscow

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### Soviet Economic Aid to Communist LDC's, 1984



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in the Nonaligned Movement. [redacted]

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To a lesser extent, Soviet aid to these countries has benefitted Moscow economically. By gearing its assistance to those projects which will result in increased exports, Moscow obtains foodstuffs, raw materials, and other needed commodities. In addition, Moscow's assistance for energy related projects in recent years should help reduce future oil exports to the CLDC's--presently about 6 percent of total Soviet exports--freeing up additional oil for consumption or hard currency sales. The USSR is helping to locate and extract coal, oil and gas in a number of the CLDC's--notably Vietnam and Cuba. In addition, the Soviet Union is assisting Cuba in the construction of a nuclear power station which Havana claims will reduce oil costs \$120 million annually per reactor. [redacted]

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Looking to the Future

Despite the benefits it receives, Moscow continues to press the CLDCs to pick-up a greater share of the tab for its economic aid. At the CEMA heads of government meeting last November, Moscow again insisted that Havana begin meeting targets for exports to CEMA countries on which it has fallen short in recent years. Along the same lines, the Soviet-Vietnamese long term trade and cooperation agreement signed in October 1983 apparently calls for Hanoi to increase the production of exports goods, taking into account the needs of the Soviet economy. [redacted]

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For their part, government officials in a number of the CLDCs--notably Cuba, Vietnam, and Mongolia--have complained about Soviet economic assistance, claiming Moscow focuses its aid on

those projects which will lead to increased exports of raw materials and agricultural goods to the USSR. The CLDCs have indicated a preference for Moscow to gear its project aid more toward industrial development--with its long term benefits--rather than the extraction of limited natural resources. [redacted]

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Despite the complaints voiced by both sides, however, we look for no fundamental change in the pattern of Soviet economic aid. Given the substantial benefits it receives--and the poor state of the CLDCs economies--Moscow probably will be unwilling to trim its economic aid for fear of exacerbating economic problems in the CLDCs. [redacted]

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Indeed, in the case of Cuba and Vietnam, where Moscow receives its greatest political and strategic returns--some increase in economic aid seems likely. The recent signing of the 1986-90 trade and aid agreement with Vietnam, for example, reportedly calls for a doubling of aid during this period and may reflect, at least partially, payment for the Soviet use of Cam Ranh Bay. Similarly, Soviet deliveries for a new atomic power plant in Cuba could run into several hundred million dollars over the next few years, possibly resulting in some increase in total aid during this period. Finally, Soviet-North Korean political relations have improved over the past year or so, and it is possible that this warming trend will result in increased Soviet economic assistance as North Korea prepares to launch its new long-term economic plan next year. [redacted]

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AppendixCuba

Soviet economic aid to Cuba during 1981-84 totaled over \$4.5 billion, some \$2 billion of which was used to finance major development projects including the Punta Gorda and Cam I nickel plants, the Santiago textile factory, and the Havana thermal power station. Besides these major projects, Moscow furnished substantial support (roughly \$50 million) to Havana's energy sector in the form of geological surveying equipment, while providing large amounts of agricultural machinery and food industry equipment to boost Cuba's output of sugar and citrus--Havana's major exports to the USSR. The remaining \$2.5 billion in Soviet aid during 1981-84 went to finance the trade deficit. Despite increased Cuban oil production, Moscow provided Havana with 90 percent of its oil requirements in 1984. The Cubans also imported large amounts of steel. 25X1

In addition to these forms of aid, the Soviet Union has helped Cuba cope with a severe shortage of hard currency. During 1981-84, this aid averaged \$775 million annually (see Table 3). To this end, Moscow has :

- o Purchased sugar and other commodities outside the protocol for hard currency.
- o Allowed Cuba to reexport some of the oil it provided.
- o Paid Ottawa hard currency for the 1 million tons of grain Canada has shipped to Cuba annually since 1980, while charging soft currency, thus saving Havana \$200-300 million per year in hard currency.

From the CLDCs perspective, these countries have few alternatives but to seek as much Soviet assistance as possible. Substantial aid from Western sources is unlikely in the near-term-given their political make-up-as is any appreciable amount of foreign investment because of the poor condition of their economies.

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Table 3

USSR: Estimated Hard Currency Support to Communist LDC's

|                                  | (Million US \$) |             |             |             |             |             |             |             |             |
|----------------------------------|-----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|                                  | <u>Cuba</u>     |             |             |             |             |             |             |             |             |
|                                  | <u>1976</u>     | <u>1977</u> | <u>1978</u> | <u>1979</u> | <u>1980</u> | <u>1981</u> | <u>1982</u> | <u>1983</u> | <u>1984</u> |
| <b>Total<sup>a</sup></b>         | 343             | 546         | 290         | 356         | 375         | 703         | 773         | 824         | 793         |
| Sugar purchases                  | 159             | 223         | 126         | 134         | 0           | 168         | 291         | 16          | 44          |
| Grain/flour exports              | 173             | 216         | 133         | 213         | 234         | 319         | 266         | 237         | 198         |
| Other <sup>b</sup>               | 11              | 107         | 31          | 9           | 141         | 216         | 216         | 571         | 551         |
|                                  | <u>Vietnam</u>  |             |             |             |             |             |             |             |             |
| Grain/flour exports <sup>c</sup> | 53              | 62          | 96          | 93          | 113         | 106         | 15          | 0           | 10          |

<sup>a</sup> Based on Soviet and Cuban trade data.

<sup>b</sup> As reported in Cuban trade data, not further specified.

<sup>c</sup> Based on Soviet trade data.

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Vietnam

The troubled economy of Vietnam also relied heavily on Soviet economic aid--receiving some \$4 billion total during 1981-84--roughly two-thirds of which were trade credits for the purchase of raw materials, petroleum products, and essential industrial commodities. Vietnam's agricultural industry was especially dependent on Moscow for much needed materials--fertilizers, fuels and lubricants, and pesticides--while Hanoi's textile industry imported over \$250 million in cotton fibers over the last four years to process in its factories. 25X1

The other one-third of Soviet aid went for project assistance. In the energy field, Moscow supplied both equipment and advisors for offshore drilling of oil and gas, the development of coal mines, and geological surveying. With Soviet help, construction also continued on a thermal power station at Pha Lai and hydropower plants at Hou Binh and Tri An.

In addition to economic aid, the USSR also provided Vietnam with hard currency support by acting as an intermediary for Hanoi's purchases of grain from Australia. As in its arrangement with Cuba and Canada, Moscow pays Canberra hard currency for grain shipped to Vietnam, while charging the Vietnamese soft currency. 25X1

Mongolia

Soviet economic aid to Mongolia since 1980 has averaged about \$800 million annually. Under the terms of a 5 year economic and technical cooperation agreement for 1981-85, the Soviets continued to supply aid for several major Mongolian

development projects, including nonferrous metals extraction, agricultural development, and civil construction projects-- primarily housing and buildings. Meanwhile, to assist Ulan Bator with developing its natural resources, Moscow has provided a large amount of geological survey equipment. [redacted]

North Korea

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The Soviet Union's relationship with North Korea is more commercially oriented than that with the other CLDC's, reflecting the more restrained political ties between Moscow and Pyongyang. Indeed, North Korea's merchandise exports to the USSR has averaged some \$55 million more than imports each year since 1981. Even so, North Korea continued to benefit not only from subsidized oil prices but also from credits extended earlier to assist in the construction of such projects as the Kim Chaek iron works, the Chongjin thermal power plant, the Anju coal mine, and the Yongsan bearings plant. [redacted]

Laos and Cambodia

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Compared to its support for other CLDCs, Soviet economic assistance to Laos and Cambodia was fairly small--averaging less than \$100 million annually for each country. Aid was concentrated on balance of payments support which financed almost all of Soviet exports to those countries over the last four years. Nonetheless, project aid was also important for the development of infrastructure in both countries--mainly in the areas of transportation, energy, and communications. [redacted]

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